



Statement of

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Encouraging Work Through the
Social Security Disability Insurance Program

Ways and Means Committee

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Chairman Johnson and members of the Subcommittee, I am Pamela Villarreal, a senior fellow at the National Center for Policy Analysis. We are a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector. I welcome the opportunity to share my views about the disincentives to work that exist in the current Social Security disability insurance program.

Over the past three years, more than one million Americans started receiving disability benefits. Currently 11 million workers and their dependents receive disability payments. According to the 2013 Trustees Report, \$140 billion was spent on disability in 2012, and the current Disability Insurance trust fund will be exhausted in 2016. Social Security Disability expenditures are growing at a faster rate than Social Security retirees' expenditures.

By 2018, it is expected that nearly 1 in 14 working-age individuals will be receiving disability payments.¹ Just as there will be fewer working age adults to pay for the benefits of Social Security retirees, there will be fewer workers to pay for the benefits of disabled workers.

How Did We Get Here? Social Security Disability Insurance was originally designed for workers over the age of 50 who became physically incapable of performing their current job or any other work compatible with their skills but had not yet reached retirement age. Since the mid-1950s, the program has expanded and now covers workers under the age of 50, disabled spouses of deceased workers and disabled adult children who were never able to work. Disability now includes mental impairments as well as physical ones. But even with better treatments for certain disabling conditions and new laws that require employers to make reasonable accommodations for the disabled, few people ever leave the rolls, except through retirement.

Changing Eligibility Criteria for Disability. After disability rolls grew unexpectedly in the 1970s, criteria to qualify for disability benefits were tightened in the early 1980s. By the mid-1980s, however, the criteria were relaxed due to concern over the frequency of claim denials. Disability criteria were further broadened and claimants were given more opportunities to appeal. These broader standards have led to an increase in the disability rolls.²

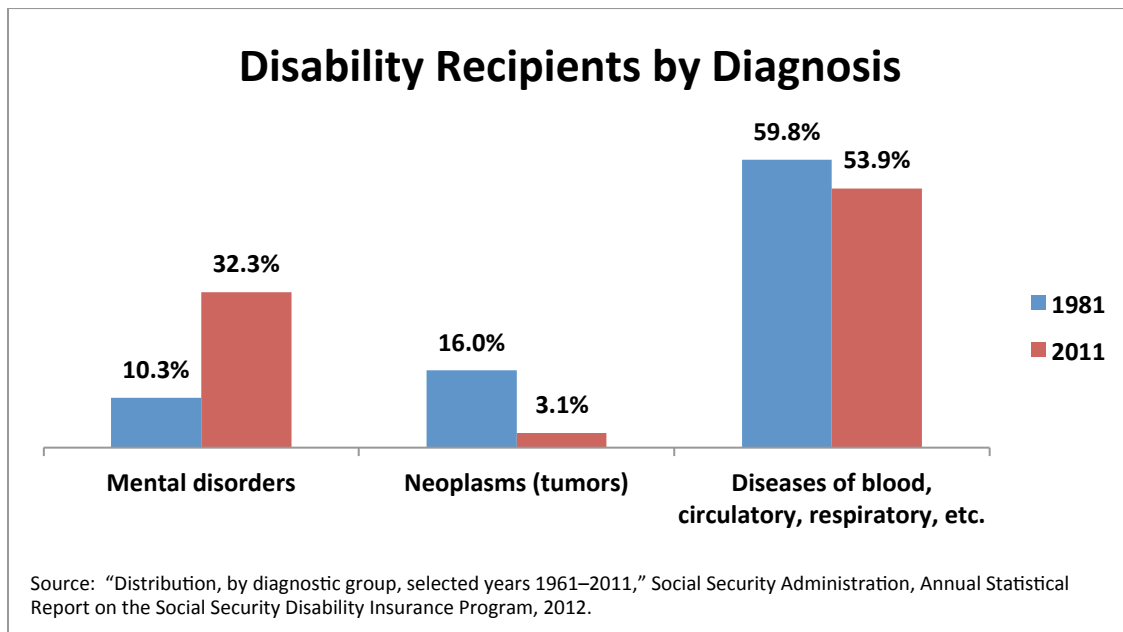
Who Receives Disability Payments? Currently, about 1 in 18 working age, nonretired individuals receives disability payments.³ The prevalence of some disabling conditions has changed relatively little over the decades. But changing eligibility requirements and more effective medical treatments have considerably altered the prevalence of other diagnoses [see the Figure]:⁴

¹ Antonella Ciancio, "Disability Rolls May be Holding Economy Back."

² David H. Autor and Mark C. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, Vol. 20, No. 3, pages 71-96.

³ Antonella Ciancio, "Disability Rolls May be Holding Economy Back," MSNBC, May 6, 2012.

⁴ "Distribution by diagnostic group, selected years 1960–2010," Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program*, 2010.



- Neoplasms (benign or malignant tumors), which were the second largest diagnostic category in 1981, fell dramatically from 16 percent to 3.1 percent in 2011.
- Mental disorders more than tripled from 10 percent of cases 30 years ago to become the second largest diagnostic category with 32.3 percent. Half of these were considered "mood disorders," such as depression and anxiety.

The change in diagnoses of neoplasms can be attributed to better cancer treatments and less invasive surgery. The increase in mental disorders is likely due to the wider latitude in the diagnosis of such disorders.

Some conditions, such as back pain, may be difficult to diagnose. Finding an effective treatment through a trial and error process may take many months or even years. As a result, some ailments that are easily treatable through medication may not be treated effectively, putting some claimants on the disability rolls for years with little likelihood of returning to work.

The age distribution of disabled workers has also changed:

- In 2000, the most recent year for which data by age group are available, 40 percent of beneficiaries were under the age of 50.
- By 2011, the share of recipients under age 50 fell to 30 percent; 70 percent were over the age of 50.

The increasingly older composition of the disability rolls can be explained in part by the aging of the population in general. A 2011 study using disability application rates from 1978 to 2008 found that a 1 percent increase in the population of 55 to 64 year olds relative to 25 to 54 year olds was associated with a 2 percent to 3 percent increase in the rate of disability claims.⁵

Furthermore, though it has been widely assumed that the disability rate is falling, this is only true for those ages 65 and over who are not counted in the working age population due to better treatments in heart, circulatory conditions and vision problems.⁶ Among the working age population, the disability rate for 50 to 64 year olds has increased. A 2010 study examined data from the National Health Interview Survey on reported disability among 50 to 64 year olds. Disability was defined as the inability to perform at least one of nine activities of daily living (ADL), such as getting in and out of bed or a chair, bathing and dressing.⁷ The Survey data show that between 1997 and 2007:⁸

- Back or neck problems increased 31 percent and were the top cause of self-reported disability for 50 to 64 year olds.
- Depression, anxiety and emotional problems increased 20 percent and, taken together, was the third leading cause of disability.
- While arthritis and rheumatism reportedly fell 18 percent since 1997, it was still the second leading cause of disability in 2007.

Researchers say the growth in underlying medical conditions — such as musculoskeletal conditions, diabetes, nervous systems conditions and depression — are the primary causes of increased self-reported disability.

It is important to note that the determination of disability by the Social Security Administration involves judgments by medical professionals in addition to self-reported claims. Thus, disability rates determined from national surveys differ from disability claims rates.

Do Disability Recipients Ever Return to Work? The Social Security Administration reports that less than one-half of 1 percent of disabled individuals return to work.⁹ However, a longitudinal study from the Center for Studying Disability Policy found that up to 2.8 percent of beneficiaries

⁵ Dana A. Kerr and Robert J. Smoluk, “Macroeconomic Influences on Social Security Disability Rates,” *Journal of Insurance Issues*, 2011, Vol. 34, No. 2.

⁶ Ibid.

⁷ Ibid. Researchers found that while the portion of people having difficulty with one or more physical functions remained stable between 1997 and 2007, specific mobility-related difficulties increased.

⁸ Linda G. Martin et al., “Trends In Disability And Related Chronic Conditions Among People Ages Fifty To Sixty-Four,” *Health Affairs*, April 2010, Vol. 29, No. 4. The National Health Interview Survey is an annual survey from the Centers for Disease Control that is compiled by the U.S. Census Bureau.

⁹ 1999 Ticket to Work (TTW) and Work Incentives Improvement Act, 42USC 1320b-19k, Section 2(a)(8).

return to work within 10 years of receiving benefits.¹⁰ Either way, the likelihood of returning to work is small, even though the health status of many disability recipients improves over time.

The disability system is designed to provide incentives to work for those who are eventually able to do so. First, individuals are allowed a “trial work period,” where they are given nine months to work without income limits and continue to receive disability payments. After the trial period, individuals can work an additional 36 months and still receive benefits, provided their monthly income does not exceed \$1,010. After the 36-month period, if an individual continues working but receives more than \$1,010 a month, disability payments will stop. If the individual is unable to continue working, he can reclaim disability within a five-year period without having to requalify.

There are considerable disincentives for individuals on disability to return to work. Consider:

- Lack of accountability in the system allows beneficiaries who could eventually return to work to continue receiving payments.¹¹
- Recipients who are able to supplement their disability payments with part-time income are discouraged from doing so out of fear of losing their disability benefits.
- Finally, disability status under Social Security makes recipients eligible for various other benefits as well, such as Medicaid, food stamps, Section 8 housing and student loan forgiveness.

Does High Unemployment Increase Disability Claims? Much attention has been focused recently on the relationship between rising unemployment and an increase in disability applications or awards in countries with generous social insurance systems. For example:

- A 2010 study from the research organization IZA found that among Norwegian workers, job displacement (unemployment) accounts for about 28 percent of new disability claims among men and 13 percent among women.¹²
- An Organization for Economic Cooperation and Development study of U.S. data spanning 22 years found that a 1 percentage point increase in the unemployment rate increased the disability claims application rate more than 10 percent and the new awards rate 7 percent overall.¹³

¹⁰ Su Liu and David Stapleton, “How Many SSDI Beneficiaries Leave the Rolls for Work? More Than You Might Think,” Center for Studying Disability Policy, No. 10-01, April 2010.

¹¹ According to the Social Security Administration, a beneficiary’s case is reviewed periodically based on the degree of disability.

¹² Bernt Bratsberg et al., “Disability in the Welfare State: An Unemployment Problem in Disguise?” IZA, Discussion Paper 4897, April 2010.

¹³ Hugo Benitez-Silva et al., “Disability, Capacity for Work and the Business Cycle: An International Perspective,” *Economic Policy*, Vol. 25, No. 63, July 2010.

- A 1995 U.S. study from the Social Security Administration found that from 1988 to 1992, found that the rate of actual disability awards increased 1.8 percent for men, but had no statistically significant effect for women.¹⁴

Long-term unemployment and the receipt of extended unemployment benefits increase the likelihood that an individual will never return to the workforce. It appears that, increasingly, older workers permanently exit the labor force for early retirement and disability pensions.

Designing a Better Disability System. Evidence across many countries suggests that those with generous disability systems have more applicants and higher costs. Chile, however, reversed this trend when it implemented a new retirement and disability benefits system in 1981. Workers prefund their retirement by putting a portion of their pay into individual accounts. The accounts are invested by private pension companies and earn market rates of return. Fully disabled workers are guaranteed 70 percent of their salary while partially disabled workers are guaranteed 50 percent. As a result of this process and other factors, the disability rate among Chilean workers fell significantly after 1981 and is now less than half that in the United States, after controlling for age:¹⁵

- Workers in the Chilean system are only 21 percent to 35 percent as likely to start a disability pension as they were in the old system, after controlling for age and gender.
- In 1999, among 45 to 54 year olds, 2.9 per thousand covered workers under the new system in Chile were accepted to newly disabled status, compared to 7.8 per thousand in the United States.
- For 55 to 59 year olds, 7.2 per thousand workers in Chile gained disability status, compared to 13.9 per thousand in the United States.

While Chile implemented this process in a funded defined contribution context, it could be adapted for use in other countries that have more traditional pay-as-you-go disability schemes, including the United States.

Conclusion. The current Social Security disability system is fraught with poor incentives, high costs and an unsustainable future. Prefunded personal disability accounts, as an integral part of overall entitlement reform, would reduce costs and promote a more efficient system that encourages individuals to work to the extent they are able.

I appreciate the opportunity to submit my views on this important question and I offer any assistance I might give to help solve this significant public policy problem.

¹⁴ Kalman Rupp and David Stapleton, “Determinants of the Growth in the Social Security Administration’s Disability Programs — An Overview,” *Social Security Bulletin*, Vol. 58, No. 4, Winter 1995.

¹⁵ Estelle James, “How to Reduce Disability: Lessons from Chile,” National Center for Policy Analysis, Brief Analysis No. 719, August 24, 2010.